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STATE OF CONNECTICUT DEPARTMENT OF REVENUE SERVICES

IP 2004(7)

INFORMATIONAL PUBLICATION

Q & A on the Connecticut Direct Payment Permit Program

Purpose: This Informational Publication explains the Connecticut Direct Payment Permit program for sales and use taxes.

Effective Date: Effective upon issuance.

Statutory Authority: Conn. Gen. Stat. 12-409a, and Conn. Gen. Stat. §12-430(7).

What is a direct payment permit?

Form AU-621, Direct Payment Permit, allows a business to purchase taxable goods and services without paying Connecticut sales tax and to remit the use tax due directly to the Department of Revenue Services (DRS). This process allows businesses to accurately determine their use tax liability on purchases.

Who qualifies for a direct payment permit?

To qualify for a direct payment permit, taxpayers must meet **all** of the following criteria:

- A direct payment permit will not jeopardize the collection of sales and use taxes;
- The business' accounting system must clearly indicate the amount of sales and use taxes owed;
- The business is regularly audited by DRS;
- The business will remit sales and use taxes using EFT (Electronic Funds Transfer) technology; and
- The business agrees that its name may be published as a direct payment permit holder on the DRS Web site and in any other related publications, and may be disclosed as a direct payment permit holder in any other manner for tax administration purposes.

How does a taxpayer apply for a direct payment permit?

If all of the criteria are met, the taxpayer must complete **Form AU-620, Direct Payment Permit Application**, and remit the \$20 permit fee to DRS. If the application is approved, DRS deposits the \$20 permit fee; if the application is denied, DRS returns the permit fee.

When will DRS give notice of acceptance or denial of an application?

DRS has 120 days from the date the completed **Form AU-620** is received to review the information provided. At the end of the review process, a letter of approval or denial is sent to the taxpayer. The Commissioner retains sole discretion in the approval or denial of all direct payment permits. Direct payment permits are issued with an effective date and are not retroactive to prior periods.

What purchases are not allowed with the direct payment permit?

The following items may **not** be purchased with the direct payment permit:

- Tangible personal property incorporated into **new construction** to real property;
- Meals or lodging;
- Motor vehicles, vessels, snowmobiles, and aircraft;
- Telecommunications services;
- Utilities (gas, electricity, and heating fuel); and
- Purchases made with Procurement Cards (P-cards);
- Tangible personal property consumed or incorporated in the installation, maintenance, and repair of utility mains, lines, poles, pipes, and other facilities located within a public right-of-way.

Must a direct payment permit holder purchase *all* items without paying sales tax?

Yes. A direct payment permit holder **must** purchase **all** goods and services, except those items listed above, without paying Connecticut sales tax. The permit holder **must** issue a copy of its direct payment permit to each of its vendors and does not have the option to pay sales tax.

Is a direct payment permit holder responsible for remitting all Connecticut sales and use taxes due?

Yes, except for tax already paid to vendors on those goods and services the permit holder cannot purchase with a direct payment permit.

Can the direct payment permit be transferred or assigned?

No. The direct payment permit **cannot** be transferred or assigned.

Does the direct payment permit need to be renewed?

No. The direct payment permit is valid until surrendered by the taxpayer or revoked by DRS. In either case, the taxpayer must immediately notify all vendors that it is no longer a direct payment permit holder and begin paying sales tax at the time of purchase.

Can a direct payment permit holder request a refund for purchases of goods and services covered under the direct payment permit?

Yes. The direct payment permit holder can request a refund through established DRS refund procedures.

Can a direct payment permit holder issue a blanket copy of its direct payment permit for items purchased on a recurring basis?

Yes, but only for those purchases that are similar in type and are of a recurring nature. Blanket permits are valid indefinitely or until the permit is suspended or revoked.

How long must a direct payment permit holder keep records to substantiate direct payment permit purchases?

A direct payment permit holder must keep a copy of the permit, bills, or invoices for at least six years from the date the items or services are purchased.

How long must the vendor keep records to substantiate direct payment permit sales?

A vendor must keep a copy of the permit, any certificates, and bills or invoices to the purchaser for at least six years from the date the items or services are purchased. These documents must be appropriately marked to indicate that untaxed purchases were made. The words “purchased with D.P.P.” satisfy this requirement.

Where can vendors find the list of direct payment permit holders?

Vendors may verify that a taxpayer holds a valid direct payment permit by accessing the DRS Web site or by calling DRS during business hours. (*See Page 3 for the DRS Web site address and telephone numbers.*)

Contractor Information

What if a contractor performs a job for a direct payment permit holder?

General contractors that enter into **renovation** construction contracts with direct payment permit holders must purchase materials and supplies to be installed or permanently placed in the projects without payment of tax. Subcontractors working on renovation projects also must purchase materials and supplies to be installed or permanently placed in the projects without payment of tax.

The general contractor must get a copy of the taxpayer’s **Form AU-621, Direct Payment Permit**, and attach it to **CERT-133, Contractor’s Exempt Purchase Certificate for a Renovation Contract with a Direct Payment Permit Holder**, to purchase materials and supplies for a renovation project without paying sales tax. The general contractor provides copies of the direct payment permit to all subcontractors involved in the renovation project. **Form AU-621** and **CERT-133** cannot be used for **new construction** contracts.

Subcontractors should continue to sell taxable renovation labor on resale to the contractors to which they are subcontracted using the *Sales & Use Tax Resale Certificate*.

The direct payment permit holder must self-assess use tax on all materials and supplies installed or permanently placed in the renovation construction project and on the renovation labor for the project.

When does a contractor issue CERT-133?

The contractor must be engaged in a renovation contract with a direct payment permit holder and must have been issued a copy of the direct payment permit. The contractor then issues **CERT-133** to the vendors and subcontractors on a job-specific basis. The contractor can issue **CERT-133** to subcontractors as a blanket certificate for services that are recurring in nature, such as plumbing, building maintenance, and landscaping.

Can all tangible personal property purchased for a construction contract with a direct payment permit holder be purchased without payment of sales tax?

Consumables: No. For both new construction and renovation contracts, the contractor must pay tax on all purchases, rentals, or leases of items that are not materials or supplies to be installed or permanently placed in the construction project.

New construction: No. The contractor must pay sales tax to the vendor at the time of purchase.

Renovation: Yes. The contractor must issue **CERT-133**, with a copy of **Form AU-621** attached, to the vendor and purchase materials for renovation contracts without paying sales tax.

Repair or maintenance of tangible personal property: Yes. Follow the rules for integral parts purchased using a resale certificate as outlined in **Informational Publication 99(19)**, *Building Contractors' Guide to Sales and Use Taxes*.

How does a contractor handle a construction contract that involves both renovation and new construction?

The costs for new construction and renovation portions of the contract must be separately stated. This provides the direct payment permit holder with

the actual costs related to the renovation on which use tax is due.

The contractor must pay sales tax on materials and supplies that will remain in new construction projects after their completion.

The contractor must issue **CERT-133** to the vendor and purchase materials for the renovation portion of the contract without paying sales tax.

Must a nonresident contractor still post a nonresident contractor's bond with DRS for a direct payment permit holder's contracts?

Effective for contracts entered into on and after July 1, 2003, the 2% bond rate for holders of direct payment permits was removed from Conn. Gen. Stat. §12-430(7). Holders of direct payment permits must now withhold 5% of the contract price and remit it to DRS if the contractor does not post a bond with DRS. If the deadline for the customer to withhold and remit a deposit to DRS is before the deadline for the nonresident contractor to post a bond, DRS will accept the earlier of the deposit or the bond. The direct payment permit holder must continue to self-assess use tax on all materials and supplies installed or permanently placed in a renovation construction project, and on the renovation labor for the project. 2003 Conn. Pub. Acts 147 and 2003 Conn. Pub. Acts 6, §76 (June 30 Spec. Sess.) See **Special Notice 2003(20)**, *Legislation Affecting Contracts With Nonresident Contractors*.

Effect on Other Documents: This document modifies and supersedes **Informational Publication 2001(7)**, *Q & A on the Connecticut Direct Payment Permit Program*.

Effect of This Document: An Informational Publication addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Preview and download forms and publications from the DRS Web site at **www.ct.gov/DRS**
- **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.
- **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.

Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use *Fast-File* to file sales and use taxes, business use tax, room occupancy tax, or withholding tax returns over the Internet or telephone. Visit the DRS Web site at **www.ct.gov/DRS** and click on *File Returns On-Line* or call **860-947-1988**.
- **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS Web site at **www.ct.gov/DRS** and click on *File Returns On-Line*.

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